



# DEFINED CONTRIBUTION FAQ

## What is defined contribution?

Defined contribution allows employers to establish a healthcare budget based on how much they can afford to spend, while giving their employees the opportunity to choose a benefit plan. The employer makes available a predetermined amount of money in an account for each employee. Employees then use that money to purchase benefits that are personalized to their needs.

## Do defined contribution plans control costs?

Early evidence suggests they do. The employer is in the driver's seat and has greater flexibility to set their contribution levels to an amount they can afford. Benefit costs per employee are fully predictable, making it easy to budget. Defined contribution plans offer greater transparency of costs between the employee and the employer because it's clear from the employer's contribution exactly what the company is putting toward employee benefits.

## What's the advantage for employees?

Employees have a greater appreciation for the financial commitment their employer is making, while they also have more control in selecting the benefits they prefer.

## Is this too complicated for employees to understand?

Most employees enjoy the greater flexibility and broader set of options available to them with a defined contribution program. The decision-support tools available on the shopping marketplace guide the employee through the selection process and the plan recommendations

based on their own preferences and budget. Just as 401k plans give employees more choice in their investments, so too do defined contribution plans allow employees to have more options and responsibility in managing their benefits and health costs.

## Is there a minimum or maximum employer contribution limit for defined contribution plans?

Yes, although this minimum requirement varies by state and by carrier, employers generally must contribute a minimum of 50% of the employee-only rate for the lowest cost plan offered on the private marketplace.

## Is there a minimum employee participation requirement for defined contribution plans?

With the defined contribution approach to employees, employers are able to set their contributions to cover the employer mandate ruling, which states that an employee-only health premium cannot exceed 9.5% of his/her gross income. We make it simple. Since the rule is based on the lowest cost premium, an employer can offer minimum essential coverage plans to cover low income employees around the rule, and with the defined contribution, they can always "buy up" to personalize their benefits if they need different coverage. This creates a fully compliant health plan offering with little effort on the part of the employer. In addition, the employees can have increased choice in their benefit while also meeting their individual requirements of having health insurance throughout the year. It's a win for everyone.

## Can an employer give employees different amounts with defined contribution plans?

Yes. With a defined contribution health plan, an employer can give employees different contributions based on classes of employees. Federal regulations require that "a plan or issuer may treat participants as two or more distinct groups of similarly situated individuals if the distinction between or among the groups of participants is based on a bona fide employment-based classification consistent with the employer's usual business practices."

## How many options can an employer offer?

The employer still determines which benefit options to make available to their employees. However, rather than having to just choose one or two plans for employees to select from, in a defined contribution model an employer can offer a broader range of choices. The wider range of choices allows employees to select the coverage that best meet their own needs and preferences.

## How does defined contribution compare to a defined benefits approach?

As with traditional group benefits, the employer determines the types of coverage to offer and which specific plans to include in the options available to employees.

The primary difference with a defined contribution approach is that rather than covering a different dollar amount depending on what plan or plans the employee chooses, the employer determines one fixed contribution amount for each employee class, and the employees then choose which types of coverage to select. With defined contribution, employees choose and enroll in their selected coverage, with guaranteed issue (for group benefits only), and make their contribution toward their benefits through a payroll deduction.

## Are employees limited to certain insurance plans?

That's up to the employer. Employees may choose a health insurance policy from any health insurance company that an employer offers to them through their benefits marketplace.

## Do a certain number of employees need to participate?

No. There are no minimum participation requirements. Employers of all sizes can offer a defined contribution plan.

## Can I use this plan for part-time employees?

Yes. Employers can provide access to funding and products to part-time employees through the Peak1 individual-based marketplace. Contact us for more details about this option.

## Get Started Today

We welcome the opportunity to further describe our defined contribution approach and ways we can work together to help your company better manage employee benefit costs.

*For more information, please contact:*

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